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SUBJECT: THY PRIVATIZATION: ON TRACK...FOR NOW

REF: ANKARA 1203

[11.](#) (SBU) SUMMARY: Turkish Airlines (THY - Turk Hava Yollari) is scheduled for tender in the third quarter 2003, and the GOT official heading THY privatization said that plans are on schedule. THY has managed, largely through timely sales of old planes, to remain profitable in bad times generally for the airline industry. However, THY officials have commented to us privately that, following a profitable 2002, sales are expected to drop in 2003. They add that a successful privatization this year will be difficult. END SUMMARY.

Plans on Schedule -----

[12.](#) (SBU) Ali Guner Tekin, the Privatization Administration (PA) official in charge of the THY sale, told us March 7 that the lead-up to war was hurting THY's revenue stream and may cause problems for the scheduled privatization process. "If it is a long war, it will affect this privatization strongly," Tekin said. He feels, however, that the Iraq conflict will likely be short and cause minimal, if any, delays.

[13.](#) (SBU) In the next few months, Tekin plans to hire a consultant to assess the current investor climate, set up a value assessment committee, and establish a tender commission (chaired by THY's Vice President). The tender commission will be responsible for advertising the technical specifications of THY aircraft and aircraft parts. In the third quarter of 2003, the PA will give a public offering for 15-25 percent of the company followed by a block sale of a minimum 51 percent, and another public offering for the remainder of the company. Tekin hopes to finalize the sale by early 2004. Press sources estimate THY's value in 2001 was USD \$2-3 billion.

[14.](#) (SBU) Bidders will have to meet a number of requirements: no more than 40 percent of THY can be foreign owned; a majority of the company's capital assets must be held in Turkey; and a majority of its board must be Turkish. PA is trying to find interested investors in Turkey as well as in Turkish expat communities in Europe. The articles dictate that the GOT hold at least one share - the "golden share" - reserving the GOT the right to block any future merger decisions taken by the new THY management. Speaking of all the conditions that need to be met, Tekin said the right bidder will not necessarily be the highest bidder. "We're looking for a suitable candidate for our daughter," he said. "It doesn't have to be rich but it sure needs to be decent."

THY Remains Profitable in a Struggling Industry -----

[15.](#) (SBU) Taken into the privatization portfolio in August 1990, THY has undergone two previous iterations of privatization efforts gone awry. In 1991, privatization was halted when war with Iraq broke out and, in early 2001, plans were again delayed due to the GOT financial crisis. Following that crisis, the GOT loosened price and regulatory controls on THY flights, allowing it to reduce or eliminate unprofitable flight routes, lay off 1,500 workers, sell excess aircraft, and pare down in-flight meals. In addition, THY was fortunate to receive \$20 million from the Government of Iran for the sale of several Airbuses one week prior to September 11, 2001.

[16.](#) (SBU) This increased autonomy and revenue helped THY

manage the post 9/11 storm that hit the aviation industry. In 2002, a year in which many airlines struggled and two European flag carriers went bankrupt, THY had it's most profitable year since 1996 (\$107 million in profits). In 2001, THY sales were \$1.4 billion; in only the first nine months of 2002, sales were \$1.2 billion. (Because THY is the largest foreign currency earner in the Turkish economy, it's revenues are an important mechanism in protecting the Turkish lira from depreciation.)

Threat of War Hurting Sales

17. (SBU) Head of Marketing for Turkish Airlines Guliz Ozturk told us in late February that THY expected a significant decrease in international and domestic operations in the event of a war in Iraq (reftel). Ozturk said THY has already cut back on its flights to the Far East, and she anticipated a significant drop in bookings on THY's European flights. In addition, Ozturk said THY was also concerned about its domestic operations to eastern and southeastern Turkey, noting that it would be difficult, if not impossible, to keep aircraft and crews in these cities once an operation began.

18. (SBU) COMMENT: In light of these difficulties, one THY executive was doubtful that the airline could be successfully privatized this year. Although Tekin appears to be genuinely committed to completing the sale of THY by early 2004, he may be overly optimistic on the timing.

PEARSON